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	VCI-00	FRB-00	H-00	TEDE-00	INR-00	JUSE-00	LAB-01
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	NIMA-00	CAEX-00	PER-00	GIWI-00	MA-00	ISNE-00	DOHS-00
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SUBJECT: FOREIGN TRADE ZONES AND TAIWANESE INVESTMENT ON THE BORDER

11. SUMMARY: Since late 2007, Ciudad Juarez has suffered a net loss of more than 80,000 manufacturing jobs as a result of the global economic slowdown. However, these losses would have been even worse without the impact of new investment and job growth in the outlying community of San Jeronimo. The establishment in 2007 of Free Trade Zones (FTZ) on the U.S. and Mexican sides of this section of border ten miles west of downtown Juarez is the catalyst for growth. By operating in this specialized customs zone, firms seeking to export manufactured goods to the United States can reduce labor and logistics costs. In 2008, Foxconn, a Taiwan-based manufacturer of electronics and computer components, invested USD 185 million to build a new assembly plant in San Jeronimo, becoming the first company to operate within the FTZ in Chihuahua. Opened in February 2009 and currently employing 8,000 Mexican workers, the plant expects to eventually hire an additional 12,000 people. Foxconn's Corporate Vice President and Chief of Business Operations for Latin America, Francisco Uranga, says the FTZ makes San Jeronimo the most competitive site for assembly operations along the entire U.S.-Mexico border.

BACKGROUND

12. On December 30, 2002, the Government of Mexico amended its customs law to allow what is called a 'Regimen de Recintos Fiscalizados Estrategicos'. Recintos fiscalizados are customs regimes that operate similarly to free trade zones in other parts of the world. (Note: In the rest of this report recintos fiscalizados will be referred to as free trade zones.) Goods transferred within FTZs are not subject to customs tariffs and quotas. This allows manufacturers to import parts and components into Mexico duty free to be transformed into a finished product for export. When the finished product exits the FTZ, the duty is paid either at the rate applied to the imported parts or at the rate applied to the finished product, whichever is lower. This reduces the importer's total tax burden, making the product more competitive.

13. Major differences between the FTZ regime and the traditional IMMEX maquila program include the elimination of secondary customs inspections, which reduces the time it takes for products to reach market; simplified customs declarations, which reduce brokers fees; and a three-day grace period to correct import declarations, which increases flexibility and reduces penalty fees. Unlike maquilas, FTZs must be located adjacent to a customs facility; but where this option exists, manufacturers benefit from added security with fewer goods lost, damaged, or stolen during transport between the port of entry, warehouse, and customs facilities.

FOXCONN TAKES ADVANTAGE OF THE NEW CUSTOMS REGIME

14. In 2007, the GOM authorized Corporacion Inmobiliaria San Jeronimo to establish an FTZ along the U.S.-Mexico border in San

Jeronimo, Chihuahua. That same year the El Paso-based Verde Realty Group received approval from the U.S. Foreign Trade Zones Board to expand Foreign Trade Zone No. 197, to include the area in Santa Teresa, New Mexico immediately adjacent to the San Jeronimo FTZ. The establishment of these zones on both sides of the border made feasible the construction of bi-national manufacturing campuses, with labor intensive assembly activities conducted in Mexico and staging and distribution in the United States.

15. To promote investment in San Jeronimo, the Chihuahua state government provided a payroll tax incentive, training funds, and electricity subsidies for companies that invest in the FTZ. The state government also invested USD 8.5 million in the construction of a border highway linking downtown Juarez and San Jeronimo, which reduced the travel time between the two locations from one hour to ten minutes.

16. In February 2009, Foxconn opened an assembly plant in San Jeronimo, becoming the first company to operate within the Mexican FTZ. Foxconn is the trade name of Hon Hai Precision Industry Co. Ltd., the largest manufacturer of electronics and computer components in the world. Foxconn manufactures on contract for many U.S. companies, including Dell, Microsoft, and Apple Inc. It is unusual among Juarez manufacturers in that it is Taiwanese-owned, since U.S. companies own roughly 90 percent of local maquilas. Foxconn's 1,200 acre campus in San Jeronimo currently employs 8,000 Mexican workers, but company managers expect total staffing to reach 10,000 by March 2010 and 20,000 by 2012. Foxconn currently produces computers for Dell at the San Jeronimo campus, but plans to begin manufacturing Apple Inc. products as it scales up operations over the next two years. If Foxconn meets its staffing projections, the San Jeronimo facility will become the largest manufacturing plant in Mexico.

HOW THE FTZ OPERATES, AND BENEFITS FOR INDUSTRY

17. For manufacturers like Foxconn, there are three main advantages to operating within the FTZ. According to Jerry Pacheco, Executive Director of the New Mexico Small Business Development Center Network, the average northbound commercial crossing time at Santa Teresa is 20 minutes, compared with 1.5 to 2 hours at El Paso ports of entry. This efficiency gain provides Foxconn a competitive advantage over companies that operate near the El Paso ports. (Note: Foxconn managers admit crossing times may rise as they increase production. For instance, in their first year of production, Foxconn operations resulted in an additional 115 commercial truck crossings a day at the Santa Teresa POE, increasing traffic there by almost 80 percent. The potential bottleneck at the port of entry represents the single greatest threat to Foxconn's ability to continue to scale up operations, said Pacheco.)

18. The second benefit for a company that chooses to operate in the FTZ is that it has more control over its cash flow. Companies can warehouse goods in the FTZ for up to two years without paying taxes. Manufacturers can decide when to move their products out of the FTZ within the two year period, depending on cash flow availability. While it is unlikely that an electronics manufacturer like Foxconn would want to warehouse products for such a long period of time, the added flexibility is a benefit.

19. The third and most fundamental benefit is that the FTZs allow manufacturers to improve global supply chain management. For instance, most of the components for the Dell computers Foxconn produces in San Jeronimo are imported from Asia through an FTZ at the Port of Long Beach, California. These components are then transported here by Foxconn's sole logistics contractor, Expeditors International. Inputs are warehoused in Santa Teresa and transported across the border into the Mexican FTZ for assembly. Once assembled, most of the computers are exported to the United States for sale, at which time the first customs duties are assessed.

BENEFITS FOR WORKERS AND BORDER COMMUNITY

¶10. Foxconn has increased employment opportunities for residents in the Anapra neighborhood of Ciudad Juarez, one of city's largest low income communities. Anapra, located at the western edge of urban Juarez, offers the closest supply of labor for Foxconn. Consulate officers observed dozens of Foxconn buses transporting hundreds of employees from the manufacturing plant to their homes in Anapra along the newly constructed border highway.

¶11. Foxconn's Mexican employees benefit from various training opportunities. According to Francisco Uranga, Foxconn's Corporate Vice President for Latin America, Foxconn frequently sends select employees to one of the company's many campuses in China for training and to gain a better understanding of the company's global inter-connectedness. Foxconn managers say such programs promote knowledge and technology transfer into the broader economy.

¶12. COMMENT: In spite of the city's record levels of drug violence, Foxconn has determined that Juarez is still a good place to conduct low-skill, low-cost manufacturing. Customs benefits associated with the San Jeronimo FTZ are improving the company's cost competitiveness, while Foxconn investment will create jobs and presumably foster technology and knowledge transfer. Critics though argue that, as is the case with maquila plants, Foxconn's production model limits "spill over" into the broader economy by not creating backward linkages to Mexican companies. Furthermore, political wrangling over the location and authorization of future FTZs remains problematic. Despite potential drawbacks, the projected large scale of Foxconn's operations in San Jeronimo could make it one of Mexico's premier manufacturing platforms for export into the United States. If this happens, expect to see other Asian manufacturers follow Foxconn's lead.

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